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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

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REAL ESTATE ACTIVITY

In April 1950 our real estate activity index declined one point. Such a small drop is, in itself, of no significance. However, it does mark the first month in nearly a year that the index has failed to show a rather healthy increase. We have mentioned before that it requires more luck than most people generally have to guess the month-by-month course of real estate activity. Therefore, we seldom try. We don't know whether the next real downturn will come this month or next - but we believe that the probabilities are that real estate activity will turn down, definitely, before the end of 1950. Fortunately, pinpoint timing is not required by those participating in the real estate market. The cycle moves very slowly and even the minor changes within the cycle take place over a period of a few months.

At present real estate activity is good; it has seldom been better. Moreover, the chances are overwhelmingly in favor of its remaining good all through 1950, even though it may be on the way down before year's end.

On page 198 is another chart on real estate activity. The red line on this chart represents real estate activity unadjusted for change in population or for long-term trend. This red line also tipped downward slightly during the last month.

REAL ESTATE SALES PRICES

We have just published our May 1950 "As I See" Bulletin containing a report on our fourth national survey of real estate sales prices, rents, land values and taxes. This survey was made in 1942, 1946, 1948 and 1950. It is conducted by sending questionnaires to thousands of leading real estate men throughout the United States. These men are sent a sketch and specifications of our standard six-room frame house and are asked to give their opinion as to the local sales price, monthly rental, assessed value and taxes on this house, not over one year old and located on a lot 50 x 125.

This year we received adequate information from 143 cities and the report gives the above-mentioned information on these 143 cities for 1942, 1946, 1948 and 1950.

The increase in sales prices of our standard six-room frame house has varied widely in different parts of the country since 1942. According to our survey, the three cities where sales prices have shown the greatest percentage increase from 1942 to 1950 are: Beaumont, Texas, 262%; Waco, Texas, 200%; and Roanoke, Virginia, 182%.

In contrast, the three cities with the least increase in sales prices during this same period are: Springfield, Massachusetts, 5%; Gary, Indiana, 60%; and Youngstown, Ohio, 61%.

Our 1942 survey showed that the three cities with the highest sales prices on our six-room house were: Toledo, Ohio, \$10,875; Galveston, Texas, \$10,700; and Peoria, Illinois, \$10,600. During this same year the three cities with the lowest sales prices on this house were Roanoke, Virginia, \$5,200; York, Pennsylvania, \$5,250; and Beaumont, Texas, \$5,400. This report indicates that in 1942 there was a spread of 109% between the highest price for this house and the lowest price.

The survey just completed shows that the highest sales prices are being received in St. Paul, Minnesota, \$21,300; Sacramento, California, \$21,000; and San Francisco, California, \$21,000. The lowest sales prices currently being received are found in Mobile, Alabama, \$12,600; Raleigh, North Carolina, \$12,800; Camden, New Jersey, and Johnstown, Pennsylvania, \$13,000. As is expected, the spread between the highest sales price and the lowest sales price is much less in 1950 than in 1942. It is only 69% in contrast to 109% in 1942.

REAL ESTATE MORTGAGE ACTIVITY

Although real estate mortgage activity has dropped slightly during the last two months, it is still very close to its postwar high. In March 1950 the latest available data showed our mortgage activity index at 192.5, or 5.8 points below its January 1950 reading of 198.3.

It is too soon for the provisions of the 1950 housing bill to be reflected in our index, but we believe that the over-all effect of the bill will be one of continued stimulation in the lending field.

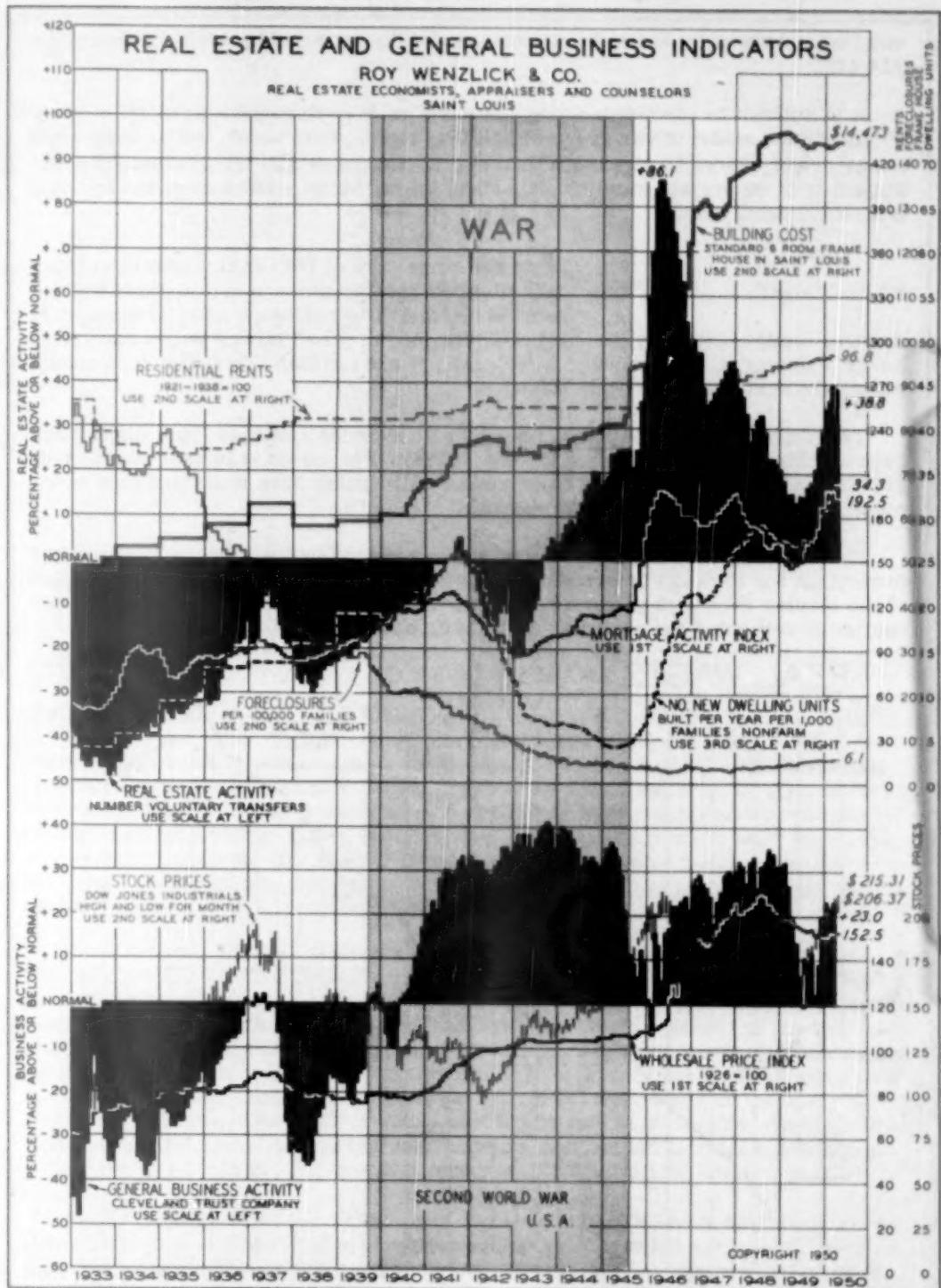
CONSTRUCTION ACTIVITY

In March 1950 residential builders broke the all-time record for the number of dwelling units started in a single month. In April they bettered their March performance by nearly 15%. During the first four months of 1950 an estimated 394,700 new nonfarm residential units have been started. This is 53% above the total of 258,100 started during the same period in 1949.

It now seems certain that a new record for the number of housing starts will be set this year. If the industry can average only 85,000 units a month during the last eight months of 1950, the old record (1,025,000 units) will be eclipsed by some 50,000 units. At the rate buildings have been going up for the last year, 85,000 per month should be child's play. Therefore, another one of our guesses on housing starts seems destined to be knocked into a cocked hat. We missed the 1949 total by 15% and we will probably miss our guess on the 1950 total by at least that much (our guess for 1950 was 900,000 to 950,000).

RESIDENTIAL CON- STRUCTION COSTS

Scattered changes in the prices of building materials, some up and some down, coupled with slight rises in carpenter wages, brought small increases to construction costs in the St. Louis area in May. Our California-type bungalow cost \$7,596, or \$54 more than it did in April. The five-room brick veneer house cost \$12,877, or \$32 more than it did in April. Strangely enough, the various changes in prices and wages combined in such a



way that our six-room frame house cost exactly the same in May as it did in April - \$14,473.

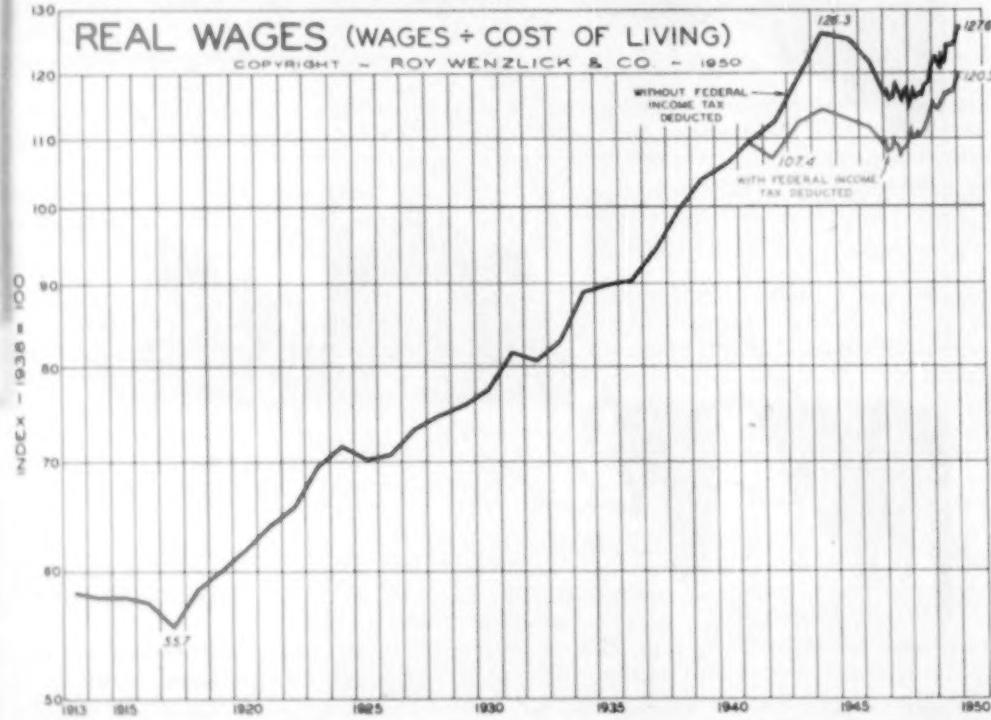
It is difficult to see how building costs can go down during the next few months. We are in the midst of our greatest building boom. This boom, fed by easier and easier credit, shows no signs of letting up. Of course, it will let up eventually, but while it is at its present feverish pitch about the only change to be expected in costs is a slow upward drift.

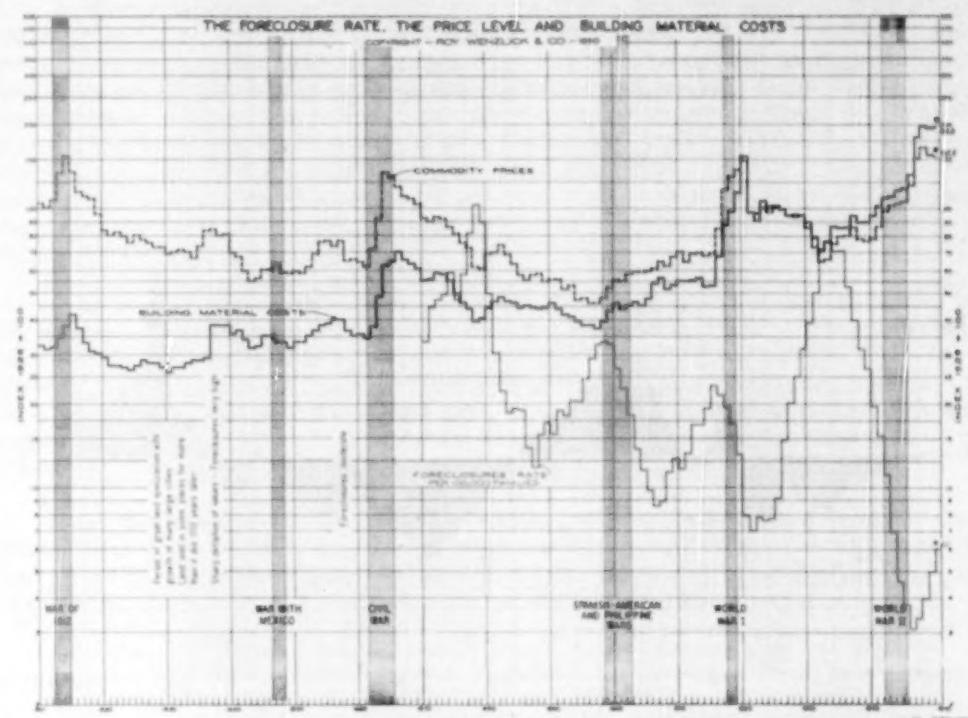
REAL WAGES

Since the latter part of 1947 real wages after taxes have climbed steeply and are now at their highest point in history. The real wage index is derived by dividing money wages by the cost of living index. When money wages are rising faster than prices, the real wage index goes up; when prices rise faster than money wages, the real wage index goes down.

The chart below shows that despite all claims to the contrary, real wages have been climbing rapidly ever since the end of 1947. The increase in real wages since 1947 has been just over 11%. In other words, while prices have risen to a high level, wages have risen to even a greater extent.

The red line on the chart shows real wages received by the average worker after deductions for Federal income taxes. This line helps point out what a large part of his income the average worker must turn over to his government. The tax deduction is computed for a worker with a wife and one child.





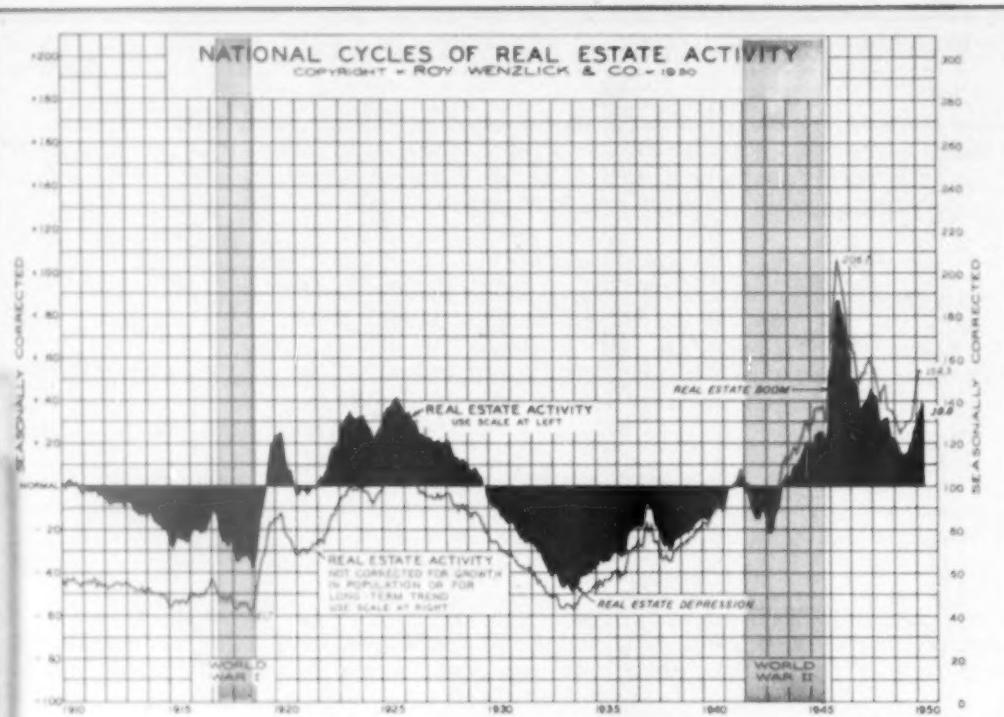
FORECLOSURES

We do not feel that we are being particularly profound when we point out that real estate foreclosures usually are caused by two fundamental reasons:

One, the borrower is unable to pay; and, two, he loses his incentive to pay. During periods of depression or falling business activity, foreclosures increase due to both of these reasons. Poor business conditions with rising unemployment and falling wages are nearly always accompanied by a dropping price level. Therefore, during such times many mortgagees are either forced to default because they haven't the money to pay or are tempted to default because they can buy something better than they have for less than they owe.

Foreclosures, although drifting upward for the last 3 or 4 years, are still so low that they are of relatively little importance. The chart above compares the foreclosure rate with the wholesale building material price index and wholesale commodity index. Notice that although foreclosures have been rising for several years they are still lower than at any time prior to World War II. The foreclosure rate seems to have established a definite downward trend from 1879 through the early 1930's. This downward trend was interrupted by the upward surge of foreclosures in the early thirties. The foreclosure rate will probably continue to rise at increasing speed for the next 5 to 7 years, reaching its next peak between 1955 and 1957. No one can foresee where that peak will be, but it is almost certain that it will not equal that of 1933.

So far, construction costs have not declined enough to have any effect on the foreclosure rate, and we believe that foreclosures will not reach serious proportions until sizable reductions take place in construction costs.



EFFICIENCY OF RESIDENTIAL CONSTRUCTION WORKERS

through the first quarter of 1950.

At first glance this chart would appear to indicate that construction labor is more efficient now than before the war. There are too many factors not included in this chart, however, to warrant this hasty and evidently incorrect conclusion.

In 1939 there was an average of 11-1/2 construction workers employed for each nonfarm dwelling unit started. In 1949 this ratio had dropped to 8 workers for each unit started. Some might interpret this to mean that labor is growing more efficient, although home builders, who should know, claim otherwise. On the other hand, there are several factors that must be considered before reaching an opinion that is exactly opposite to what most building contractors have been saying for the past 6 to 8 years.

First of all, the number of units started during a certain period is no exact guide to the amount of work actually put in place. Second, the types of units being built today are considerably different from those built during 1939 to 1940. For the most part they are smaller, fewer of them have basements, and more labor-saving mate-

rials, tools and techniques are in use than during the prewar period. Third, and this is pure conjecture because we cannot offer sufficient evidence to support it, we think that the government's estimates of the number of housing units being started are too high. This is more of a suspicion of ours than anything else. We believe that the government's estimates of new residential construction are too high in those areas that do not require building permits. This is not an attempt on our part to worm out of two bad guesses on construction volume, as we believe that the government's estimates, although too high, are still closer to actuality than our guesses.

We think that the most important reason for fewer workers per start lies in the aforementioned labor-saving techniques, tools and materials. Basementless houses require fewer workers, and where basements are dug, the work is more frequently done with power tools. Dry wall construction requires fewer man-hours than plastered walls and tile board goes up quicker than ordinary tile. Pre-cut lumber, packaged millwork, prefabricated or semi-fabricated parts and assembly line methods at the building site all combine to save on man-hours.

These differences in home building methods and materials make it virtually impossible to say precisely how labor's present efficiency compares with prewar. Our guess is that in St. Louis, and disregarding labor-saving methods, the over-all man-for-man efficiency is about 90 per cent of the 1939 rate.

